



WEEKLY REPORT

ARIZONA STATE RETIREMENT SYSTEM

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For the week ending Friday, March 28, 2003

Weekly Report is published by the Arizona State Retirement System (ASRS) and provides a summary of legislation that pertains to the ASRS, as well as up-to-date ASRS news. We hope you find it useful. Included is a Quick Reference bill summary. If there are issues you'd like addressed, please let us know.

***** Please distribute or make this report available to your employees. *****

ASRS News:

- The Senate Finance Committee on March 24 forwarded to the full Senate the Governor's nomination of three new members to the Arizona State Retirement System Board. They are: Keith Meredith, Lawrence Trachtenberg and Steven Zeman. Once confirmed by the full Senate, they will replace current Board members Alan Maguire, Bonnie Gonzalez and Ray Rottas.
- The spring edition of the Financial Horizons member newsletter was mailed to all members this week. Highlights include a letter to members from ASRS Board Chair Alan Maguire and ASRS Director Paul Matson.
- The next ASRS Board meeting is scheduled for Friday, April 18, 8:30 a.m., in the ASRS Phoenix office, 3300 N. Central Ave. ASRS Board Meetings are always open to the public and your attendance is encouraged. Board meetings, agendas and minutes can be found on the ASRS website.

Next Week in the State Legislature:

Monday, March 31

- Senate Finance Committee, 1:30 p.m., SHR 1
 - HB 2024 ASRS; service purchase calculation
 - HB 2349 public retirees; rural areas; insurance
 - HB 2455 ASRS; termination option

Tuesday, April 1:

- House Ways and Means Committee, 8:30 a.m., HHR 4
 - SB 1037 ASRS; surviving spouses; health insurance
- House Government and Retirement Committee, 9:00 a.m., HHR 3
 - SB 1036 public retiree health insurance subsidy
- House Appropriations Committee, 1:00 p.m., HHR 1
 - SB 1224 ASRS; service purchase; calculation (now Defined Contribution Plan Amendments)
- Senate Government Committee, 1:30 p.m., SHR 1
 - HB 2349 public retirees; rural areas; insurance

ASRS Legislation NEWS

Rural Health Insurance Subsidy

SB 1036 was amended this week. It still includes a two-year extension of the rural subsidy, but now requires the retiree pay a minimum amount in order to be eligible for the subsidy. For example, the current rural subsidy allows non-Medicare, single rural retirees participating in ADOA-provided coverage to pay nothing, while metro retirees pay \$120 per month for the same coverage. Health insurance costs for other classes (e.g. single, family, Medicare, etc.) are also not comparable to metro retiree costs (higher or lower). The current legislative thinking is to require rural retirees to pay a minimum amount that would approximate what the metro retirees pay. Retirees that already pay the minimum will continue to receive the rural subsidy. This proposal is said to reduce the cost of providing the rural subsidy by about one-half.

The minimum out-of-pocket amounts are listed in the bill and in the table below. However, key legislators have indicated that these dollar amounts will be changed next week. In addition, the bill requires that in order to receive the family rural subsidy amount, the retiree must have family medical coverage. This change closes a loophole that currently exists.

	Non-Medicare Eligible	Medicare Eligible
Single	\$125	\$150
Family	\$425	\$325

In a series of stakeholder meetings, key legislators have indicated the amendments to HB 2349, which require former employers to provide coverage to their retirees, will be modified to establish a multi-year phase-in of that requirement and will contain most of the amendments that have already been made to the Senate version, as described above.

Defined Contribution Plan Amendments Introduced

The amendments required to implement the Supplemental Defined Contribution Plan have been adopted as a “strike everything” amendment on the Senate version of the Service Purchase bill (SB 1224). These amendments are required by the IRS to implement the Supplemental Retirement Savings Plan, which will be the pre-tax vehicle for participants in the modified DROP for ASRS. The amendment passed out of House Government and Retirement on Tuesday with a unanimous vote.

Survivors Health Insurance Option

The House Government and Retirement Committee gave a do pass to SB 1037 (Surviving Spouses Health Insurance). The ASRS drafted an amendment which: 1) changes “surviving spouse” to “contingent annuitant”; 2) makes the decision to “pop-up” irrevocable (i.e. if you pop up to a straight life annuity, you can’t pop down to another term certain or joint and survivor); and 3) added a \$537,000 appropriation to the ASRS budget to make computer system modifications and administer the provisions of the bill.

Other legislation affecting the ASRS is listed in the attached Quick Reference.

Quick Reference
ASRS Related Legislation
(Updated through Friday, March 28, 2003)

BILLS	BILL STATUS	ASRS ADMIN. COST	ACTUARIAL COST
HB 2023 – ASRS; unpaid contributions by Huppenthal As Amended in Sen. COW: <ul style="list-style-type: none"> Provides a member with 90 days to make payments after being notified that the employer has paid. If the member does not pay within 90 days, the member is responsible for accrued interest from that date. Provides an employer with 90 days to make payments after being notified of the amount due. If the employer does not pay within 90 days, the employer is responsible for any accrued interest until the amount is paid in full. Provides that the person initiating the request is responsible for providing verification of past employment and qualification for participation in the ASRS. States that, beginning July 1, 2004, the employer is only responsible for making payments for service worked within 15 years of the date of the request. Allows a member to purchase service that was worked prior to the 15-year limit as “other public service.” Provides a member until July 1, 2004 to purchase service worked prior to the 15-year limit under current procedures. States that an ASRS determination of eligibility is appealable to the ASRS Board. 	Passed House 56-0-2. Assigned: Sen. FIN. Status: Sen. First Read 02/05/03. Passed Sen. FIN DPA 8-0-1. <u>Passed Sen. RULES PFCA.</u> <u>Passed Sen. COW</u> <u>DPA. Awaiting Sen. Third Read.</u>	As Amended in Sen. COW: None Expected.	As Amended in Sen. COW: Actuarial letter received stating no cost.
HB 2024 – ASRS; service purchase; calculation by Huppenthal As Passed the House: Contains an emergency clause. Defines “current annual compensation” used in calculating the cost of purchasing service credit as the greater of: <ol style="list-style-type: none"> The sum of the 12 months of compensation prior to the request. The sum of the 36 months of compensation prior to the request, divided by three. If the member has retired from an ASRS employer, the average monthly compensation used to calculate the member’s last pension, times 12. The annualized compensation of the full pay period prior to the request. The annualized compensation of the partial year prior to the request, if the member has less than 12 months of service. 	Passed House 57-0-1. Assigned: Sen. FIN. Status: Sen. First Read 02/04/03. <u>Scheduled Sen. FIN 03/31/03.</u>	As Passed the House: None Expected.	As Passed the House: Actuarial letter received stating no cost.

BILLS	BILL STATUS	ASRS ADMIN. COST	ACTUARIAL COST
HB 2067 – ASRS; technical correction by Huppenthal As Introduced: Makes a technical change to 38-742 “reinstatement.”	Assigned: Hse. RULES. Status: Awaiting Hse. RULES. DEAD (?)	As Introduced: None Expected.	As Introduced: None.
HB 2349 (see SB 1036) – public retirees; rural areas; insurance by Konopnicki, Flake, Wagner, Arzberger, and Brown As Passed the House : <ul style="list-style-type: none"> Eliminates the extension of the rural health insurance subsidy. Requires all public employers to allow their retirees to join the health plan that they offer to their active employees. States that the cost to the retiree cannot exceed the total cost of the premium for active employees. Provides that if a retiree was given the option of staying with the employer’s plan at the time of retirement and opted not to stay in, that employer does not have to allow that member the option of joining now. 	Passed House 40-17-3. Assigned: Sen. FIN, Sen. GOV. Status: <u>Scheduled Sen. FIN 03/31/03.</u> <u>Scheduled Sen. GOV 04/01/03.</u>	As Passed the House : Requested. As Amended in Hse. GR: None Expected.	As Passed the House: Requested. As Amended in Hse. GR: Unfunded liability of \$31.1 million, an increase in the contribution rate for all employers and employees of 0.022% each, which is a combined cost of \$3.1 million more in contributions annually for 18 years (GF cost of \$352,927 per year).
HB 2397 (see SB 1296) – public monies; investment protection by Yarbrough, Martin, Huppenthal, and 4 As Amended in Hse. WM (Strike Everything): <ul style="list-style-type: none"> Requires all asset managers that invest in equities on behalf of this state to submit an annual report to the entity on whose behalf they are investing. Requires affected state entities to provide an annual report to the governor, president of the senate, speaker of the house of representatives and the chairpersons of the house ways and means committee and the senate finance committee. Defines “federal designated terrorist sponsoring country or government” to mean those countries or governments that are designated as terrorist sponsoring by the U.S. Department of State, except Cuba. Only one company has been identified that could supply a portion of the required information to the asset managers for a fee. 	Assigned: Hse. WM. Status: Passed Hse. WM DPA/SE 7-4-0-1. Awaiting Hse. RULES.	As Amended: Requested.	As Amended: A potential increase in the contribution rate for all employers and employees of 0.64% each. Based on \$4 million increase in investment management fees, a 0.50% reduction (est. \$80 mil.) in investment return, and \$300,000 annually to purchase oversight services and prepare the reports. Potential litigation costs are not included.

BILLS	BILL STATUS	ASRS ADMIN. COST	ACTUARIAL COST
HB 2398 – ASRS; long-term disability increase by Carruthers, O'Halleran, Gullett As Introduced: Provides an increase to a member's LTD benefit equal to a benefit increase provided to a retired member of ASRS.	Assigned: Hse. GR, Hse. APPROP. Status: Awaiting Hse. GR. DEAD (?)	As Introduced: Not requested.	As Introduced: Unfunded liability of \$56.0 million, an increase in the LTD contribution rate for all employers and employees of 0.09% each, which is a combined cost of \$7.4 million more in contributions annually (GF cost of \$1.8 million per year).
HB 2401 – deferred retirement option plan by Wagner, Quelland, Gray, and 6 As Introduced: Provides a deferred retirement option plan option to members of the ASRS, PSPRS, and CORP.	Assigned: Hse. GR, Hse. APPROP. Status: Awaiting Hse. GR. DEAD (?)	As Introduced: Not requested.	As Introduced: Unfunded liability of \$634.8 million, an increase in the contribution rate for all employers and employees of 0.45% each, which is a combined cost of \$31.5 million more in contributions annually for 17 years (GF cost of \$7.5 million per year).
HB 2455 – ASRS; termination option by Huppenthal As Passed the House: Makes technical changes to the Modified DROP Program.	Passed Hse. 57-0-3. Assigned: Sen. FIN. Status: <u>Scheduled</u> <u>Sen. FIN 03/31/03.</u>	As Passed the House: None Expected.	As Passed the House: None.
HCR 2002 – impeachment; public retirement systems; forfeiture by Huppenthal As Introduced: Constitutional amendment to allow the senate to require an impeached official to forfeit their public retirement benefits from the office for which they were impeached.	Assigned: Hse. GR, Hse. JUD. Status: Awaiting Hse. GR. DEAD (?)	As Introduced: None Expected.	As Introduced: None.
HCR 2029 – public monies; investment protection by Nichols, Verschoor As Introduced: Urges all asset managers and financial firms that invest or manage monies on behalf of the state to submit semiannual reports concerning companies engaged in business practices within a country designated by the United States Department of State as one that supports terrorist activities.	Assigned: Hse. GR, Hse. APPROP. Status: Passed Hse. GR DP 10-0-0-2. Awaiting Hse. APPROP.	As Introduced: Requested.	As Introduced: Not Requested. (If implemented, cost may be the same as SB 1296 and HB 2397.)

BILLS	BILL STATUS	ASRS ADMIN. COST	ACTUARIAL COST
SB 1036 (see HB 2349) – public retiree health insurance subsidy by Arzberger and 23 As Amended in Hse. Health: <ul style="list-style-type: none"> Establishes minimum out-of-pocket premium costs for health coverage in order to be eligible for the Rural Health Subsidy. The minimum out-of-pocket premium for Medicare eligible is \$150 for single coverage and \$325 for family coverage. The minimum out-of-pocket premium for non-Medicare eligible is \$125 for single coverage and \$425 for family coverage. Provides that the family-rate Rural Subsidy is only available if the retiree has family medical coverage. 	Passed Senate 25-5. Assigned: Hse. HEALTH, Hse. GR, Hse APPROP. Status: <u>Passed Hse. HEALTH DPA 11-0-0-1.</u> <u>Scheduled Hse. GR 04/01/03.</u>	As Amended in Hse. Health: \$185,000	As Amended in Hse. Health: Requested.
SB 1037 – ASRS; surviving spouses; health insurance by Arzberger and 17 As Amended in Hse. GR: Provides a retiring member who selects a joint and survivor or period certain annuity the ability to select an optional health insurance subsidy that continues to the contingent annuitant after the member's death.	Passed Senate 29-0-1. Assigned: Hse. GR, Hse. WM. Status: <u>Passed Hse. GR DPA 12-0-0.</u> <u>Scheduled Hse. WM 04/01/03.</u>	As Amended in Hse. GR: \$537,000	As Amended in Hse. GR: Actuarial letter received stating this bill is cost neutral.
SB 1160 – ASRS; veterans; service credits by Arzberger As Introduced: <ul style="list-style-type: none"> Requires the ASRS to recalculate the cost of military service purchased by members (active, retired, or deceased) prior to July 20, 1996, and refund any amounts, plus interest. Requires the ASRS to publish a notice of possible refund in 4 quarterly newsletters and 2 annual statements. Appropriates \$50,000 to the ASRS for making the recalculations. 	Assigned: Sen. FIN, Sen. APPROP. Status: Awaiting Sen. FIN. DEAD (?)	As Introduced: Requested.	As Introduced: Unfunded liability of \$628,050, and increase in the contribution rate for all employers and employee of .00045%. However, because the contribution rate is rounded, there will be no actual contribution rate change and therefore no cost.
SB 1221 – ASRS; study committee; health costs by Arzberger, Aguirre, Brotherton As Amended in Sen. FIN: Creates a study committee on managing retiree health-care costs.	Assigned: Sen. FIN. Status: Passed Sen. FIN DPA 6-0-3. Passed Sen. RULES PFC. Awaiting Sen. COW.	As Amended: None Expected.	As Amended: None.

BILLS	BILL STATUS	ASRS ADMIN. COST	ACTUARIAL COST
SB 1224 – S/E: supplemental defined contribution plan; procedures by Martin, Reagan As Amended in Hse. GR (Strike Everything): Makes changes to the supplemental defined contribution plan in order to conform to IRS requirements. <ul style="list-style-type: none"> Requires an employee to make an election to participate in the Plan within two years after the employee first becomes eligible to participate in the Plan. States that an election to participate in the Plan is irrevocable and continues for the remainder of employment. Allows the employer to annually increase or decrease the employee contributions in increments of one per cent up to the maximum allowed by law OR requires the employee to make one-time irrevocable elections of the employee's contribution amount. Clarifies the procedures for employer matching contributions. 	Passed Senate 29-0-1. Assigned: Hse. GR, Hse. APPROP. Status: <u>Passed Hse. GR DPA/SE 11-0-0-1.</u> <u>Scheduled Hse. APPROP 04/01/03.</u>	As Amended in Hse. GR: None Expected.	As Amended in Hse. GR: None.
SB 1225 – ASRS; investment management; requirement by Martin As Passed the Senate: Amends ARS 38-718 to correct for the change in name of the organization responsible for awarding the chartered financial analyst designation from "institute of chartered financial analysts" to the "Association for Investment Management and Research."	Passed Senate 30-0. Assigned: Hse. FII, Hse. GR. Status: Passed Hse. FII DP 11-0-0-1. <u>Passed Hse. GR DP 11-0-0-1.</u> <u>Awaiting Hse. RULES.</u>	As Passed the Senate: None Expected.	As Passed the Senate: None.
SB 1226 – ASRS; legal counsel by Martin As Introduced: Exempts the ASRS from obtaining legal counsel only from the Attorney General.	Assigned: Sen. JUD, Sen. FIN. Status: Passed Sen. FIN DP 8-0-1. FAILED Sen. JUD 3-4-2. Scheduled, not heard Sen. JUD 02/26/03. DEAD (?)	As Introduced: None Expected.	As Introduced: None.

BILLS	BILL STATUS	ASRS ADMIN. COST	ACTUARIAL COST
<p>SB 1296 (see HB 2397) – public monies; investment protection by Martin, Stump, Yarbrough</p> <p>As Passed the Senate:</p> <ul style="list-style-type: none"> Requires asset managers and financial firms that invest money on behalf of the state to submit annual reports if they have identified that they invest state money in companies that are listed on the US Treasury Department's Office of Foreign Assets Control specially designated nationals' and blocked persons list. The report must include a list of companies that the fund manager holds that are on the list, as well as alternative investment strategies and their impact on the funds and how the portfolio could be altered to exclude those companies. Prohibits any fund manager that fails to provide a report from investing money on behalf of the state. Establishes a task force to study ways for public funds managers to mitigate the risks when investing in companies that have ties to terrorist sponsoring countries and ways and methods to limit investments in companies with ties to terrorist sponsoring countries without compromising portfolio returns. Repeals the task force on December 31, 2004. 	<p>Passed Senate 16-10-4.</p> <p>Assigned: Not yet assigned.</p> <p>Status: Awaiting Hse. First Read.</p>	<p>As Passed the Senate: Requested.</p>	<p>As Passed the Senate: Requested.</p> <p>As Amended in Sen. FIN: A potential increase in the contribution rate for all employers and employees of 0.64% each. Based on \$4 million increase in investment management fees, a 0.50% reduction (est. \$80 mil.) in investment return, and \$300,000 annually to purchase oversight services and prepare the reports. Potential litigation costs are not included.</p>

LEGEND

AMEND C&P	Constitutional and Proper as Amended by the House Rules Committee	HB	House Bill
APPROP	Appropriations Committee	HCR	House Concurrent Resolution
ASRS	Arizona State Retirement System	HHR	House Hearing Room
C&P	Constitutional and Proper	Hse.	House of Representatives
CORP	Corrections Officer Retirement Plan	JUD	Judiciary Committee
COW	Committee of the Whole	LTD	Long Term Disability
DP	Do Pass	PFC	Proper for Consideration
DPA	Do Pass as Amended	PFCA	Proper for Consideration as Amended by the Senate Rules Committee
EORP	Elected Officials' Retirement Plan	PSPRS	Public Safety Personnel Retirement System
FII	Financial Institutions and Insurance Committee	SB	Senate Bill
FIN	Finance Committee	S/E	Strike Everything Amendment
GF	General Fund	Sen.	Senate
GOV	Government Committee	SHR	Senate Hearing Room
GR	Government and Retirement Committee	WM	Ways and Means Committee

**The weekly legislative report is available on-line at the ASRS Web site:
www.asrs.state.az.us**

ASRS External Affairs staff and the Legislative Board Committee meet during the legislative session. The meetings take place in the 14th floor conference room of the ASRS office at 3300 N. Central Ave., Phoenix, and are open to the public. The purpose of these meetings is to review legislative activity on retirement bills from the previous week, and to review the scheduled bill activity in committees and on the floor for the upcoming week. Committee members ask technical and background questions, and review the latest information gathered from the Capitol and retirement groups from around the state. Meetings are teleconferenced to the ASRS Tucson office at 7660 E. Broadway Blvd., Tucson. Meeting agendas and minutes will be posted on the ASRS website. If you have questions relating to legislation, please contact Kelly Orrick at (602) 240-2027 or via email at KellyO@asrs.state.az.us.